

# 乾坤燭<sup>®</sup> PROSTICKS<sup>®</sup>

ProSticks International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)



3<sup>rd</sup> Quarterly Report  
2005

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of ProSticks International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS:

- Turnover for the nine months ended 30 September 2005 amounted to approximately HK\$8,325,000, representing an increase of approximately 67% over the previous corresponding period.
- Net loss attributable to shareholders for the nine months ended 30 September 2005 decreased by approximately 61% to approximately HK\$3,285,000.
- The Directors do not recommend payment of any dividend for the nine months ended 30 September 2005.

## RESULTS

The board (the "Board") of directors (the "Directors") of ProSticks International Holdings Limited (the "Company") presents the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the nine months and three months ended 30 September 2005, together with the comparative unaudited figures of the corresponding periods in 2004, as follows:

	Note	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>Turnover</b>	2	<b>8,325</b>	4,973	<b>1,823</b>	1,821
Cost of sales		<b>(2,025)</b>	(2,509)	<b>(570)</b>	(897)
Gross profit		<b>6,300</b>	2,464	<b>1,253</b>	924
Other revenue	3	<b>192</b>	209	<b>200</b>	164
Advertising & promotion expenses		<b>(185)</b>	(190)	<b>(68)</b>	(113)
Administrative expenses		<b>(9,247)</b>	(10,848)	<b>(3,158)</b>	(3,419)
<b>Loss from operations</b>		<b>(2,940)</b>	(8,365)	<b>(1,773)</b>	(2,444)
Finance costs		<b>(345)</b>	(148)	<b>(137)</b>	(62)
<b>Loss from ordinary activities before taxation</b>		<b>(3,285)</b>	(8,513)	<b>(1,910)</b>	(2,506)
Taxation	4	-	-	-	-
<b>Net loss attributable to shareholders</b>		<b>(3,285)</b>	(8,513)	<b>(1,910)</b>	(2,506)
<b>Dividend</b>	5	-	-	-	-
<b>Loss per share</b>					
- Basic	6	<b>(0.50 cents)</b>	(1.41 cents)	<b>(0.29 cents)</b>	(0.38 cents)

## NOTES

## 1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and complied with accounting standards issued by Hong Kong Institute of Certified Public Accountants.

The financial statements are prepared under the historical cost convention. The basis of preparation and accounting policies adopted in the preparation of the quarterly accounts are consistent with those followed in the Company's annual financial statements for the year ended 31 December 2004 except that the Company has adopted the new Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") that are effective for accounting periods beginning on or after 1 January 2005. The comparative figures in respect of 2004 have also been amended as required and where necessary, in accordance with the relevant requirements.

The unaudited condensed consolidated financial statements for the nine months and three months ended 30 September 2005 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

## 2. Turnover

The Group is principally engaged in the development, production and distribution of financial software products.

	<b>(Unaudited)</b> <b>For the nine months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 September</b>	
	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Membership subscription fee	<b>1,221</b>	1,182	<b>432</b>	410
System services and maintenance income	<b>7,104</b>	3,791	<b>1,391</b>	1,411
	<b><u>8,325</u></b>	<u>4,973</u>	<b><u>1,823</u></b>	<u>1,821</u>

## 3. Other Revenue

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>For the nine months ended 30 September</b>		<b>For the three months ended 30 September</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Interest Income	<b>2</b>	4	<b>2</b>	1
Others	<b>190</b>	205	<b>198</b>	163
	<b>192</b>	209	<b>200</b>	164

Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

## 4. Taxation

Hong Kong Profits Tax has not been provided as the Group had no assessable profit for the period under review (2004: nil).

## 5. Dividend

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2005 (2004: nil).

## 6. Loss per share

The calculation of basic loss per share for the nine months and three months ended 30 September 2005 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$3,285,000 and HK\$1,910,000 respectively (*nine months and three months ended 30 September 2004: approximately HK\$8,513,000 and HK\$2,506,000 respectively*) and the weighted average of 651,700,000 ordinary shares in issue during the nine months and three months ended 30 September 2005 (*nine months and three months ended 30 September 2004: 605,864,088 shares and 651,700,000 shares respectively*).

The diluted loss per share is not presented because the Pre-IPO share options, share options and convertible bonds outstanding during the nine months and three months ended 30 September 2005 had an anti-dilutive effect on the basic loss per share for the corresponding periods.

## 7. Movements of reserves

	Share Premium HK\$'000	Share- based payment reserve HK\$'000	Capital reserve HK\$'000	Convertible bonds – equity component HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As of 1 January 2004	23,113	-	24,415	-	(135)	(53,581)	(6,188)
Issue of shares	3,685	-	-	-	-	-	3,685
Exchange differences on translation of the financial statements of an overseas subsidiary	-	-	-	-	(108)	-	(108)
Net loss for the period	-	-	-	-	-	(8,513)	(8,513)
At 30 September 2004	<u>26,798</u>	<u>-</u>	<u>24,415</u>	<u>-</u>	<u>(243)</u>	<u>(62,094)</u>	<u>(11,124)</u>
<b>As of 1 January 2005</b>							
– as previously stated	26,798	-	24,415	-	(359)	(63,042)	(12,188)
– effect of adoption of HKFRS and HKAS retrospectively	-	920	-	481	-	(920)	481
As restated	<u>26,798</u>	<u>920</u>	<u>24,415</u>	<u>481</u>	<u>(359)</u>	<u>(63,962)</u>	<u>(11,707)</u>
Issue of convertible bond	-	-	-	82	-	-	82
Redemption of convertible bond	-	-	-	(163)	-	-	(163)
Exchange differences on translation of the financial statements of an overseas subsidiary	-	-	-	-	(133)	-	(133)
Net loss for the period	-	-	-	-	-	(3,285)	(3,285)
<b>As of 30 September 2005</b>	<u>26,798</u>	<u>920</u>	<u>24,415</u>	<u>400</u>	<u>(492)</u>	<u>(67,247)</u>	<u>(15,206)</u>

## 8. Comparative Figures

To conform to the current period's presentation, the comparative figures of "other income" of approximately HK\$205,000 and HK\$163,000 for the nine months and three months ended 30 September 2004 respectively were reclassified as "other revenue". Such reclassification has no effect on the results for the current period or the previous corresponding period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the three months ended 30 September 2005, the Group had a total turnover of approximately HK\$1,823,000, which represents only a very slight increase over the previous corresponding period. When compared with the corresponding period in 2004, revenue from membership of ProSticks website increased by approximately 5% while revenue from operational application software products decreased by approximately 1% in 2005. Revenue from membership of ProSticks website and operational application software products accounted for approximately 23.7% and 76.3% respectively of the Group's total turnover for the three months ended 30 September 2005 (2004: 22.5% and 77.5% respectively).

During the period under review, the data and internet costs decreased considerably by approximately 45% and the direct labour costs decreased by approximately 25%. As a result, the gross profit for the three months ended 30 September 2005 increased by approximately 36%.

Despite there was a substantial increase in overseas traveling expenses, which was mainly for market development in China, the total administrative expenses decreased by approximately 8% when compared with the corresponding period in 2004.

The finance costs increased substantially by approximately 121% as the interest rate of the convertible bonds of the Company increased in line with the increase in Hong Kong prime lending rate and a new convertible bond of HK\$2,000,000 was issued by the Company in August 2005.

The net loss for the three months ended 30 September 2005 amounted to approximately HK\$1,910,000 (2004: HK\$2,506,000), representing a reduction of approximately 24% when compared with the results of 2004.

### Operational Review

#### *Financial instruments analysis software products*

In view of the unsatisfactory development in the North American market, the Group closed down its office in Canada in August 2005, and shifted its focus of development to the China market. In September 2005, the Group, with the assistance of the appointed distributor in China, organized a seminar in Guangzhou to introduce its newly developed products to the target customers. The event had approximately 300 participants, and positive comments on the Group's products were received from the potential customers. The Directors anticipate that more promotional events will be held in China in the next quarter.

### *Operational software application products*

During the period under review, all contracts on hand progressed smoothly according to the schedule. In August 2005, a new licensing contract for the CORE FX Margin trading system was signed with a reputable bank in Hong Kong. It is expected that the system would be delivered in late 2005 or early 2006.

### **Outlook**

The Directors expect that the newly launched products in China may start to bring in additional revenue to the Group in the last quarter of the year. Furthermore, the operational software application products delivered in 2004/2005 shall generate additional maintenance income for the Group. Together with the effective cost control measures, the Directors expect that the overall performance of the Group for Year 2005 shall be promising.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the nine months ended 30 September 2005.

## **DIRECTORS' INTERESTS IN SECURITIES**

As at 30 September 2005, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules") to be notified to the Company and the Stock Exchange, were as follows:

### **Long positions in shares of the Company**

<b>Name of Directors</b>	<b>Number of ordinary shares held and nature of interests</b>			<b>Total percentage of shareholding</b>
	<b>Personal</b>	<b>Corporation</b>	<b>Total</b>	
Mr. Li Ching Ping Vincent ("Mr. Li") (Note 1)	–	90,479,242	90,479,242	13.88

*Notes:*

1. These shares were held by Great Power Associates Limited, a company wholly owned by Mr. Li.
2. Nominee shares in subsidiaries were held by a Director in trust for the Group.

**Short positions in shares of the Company**

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of underlying shares</b>	<b>Total percentage of shareholding</b>
Mr. Li	Interest of a controlled corporation	23,000,000	3.53

*Note:* Great Power Associates Limited, a company wholly owned by Mr. Li, has written a call option to an independent third party, pursuant to which the option holder has the right to purchase from Great Power Associates Limited up to 23,000,000 shares of the Company at an exercise price of HK\$0.03 per share during the period of 2 years commencing from 2 December 2003.

**Share options**

<b>Name of Director</b>	<b>Date of grant and vesting</b>	<b>Number of share options</b>			<b>Exercise period</b>	<b>Exercise price per share (HK\$)</b>
		<b>At 1 January 2005</b>	<b>Granted/ Excised/ Cancelled/ Lapsed during the period</b>	<b>At 30 September 2005</b>		
Mr. Li	20/11/2003	24,000,000	-	24,000,000	20/11/2003-19/11/2013	0.021

Save as disclosed above, as at 30 September 2005, none of the Directors or chief executive of the Company had any interests or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

## INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, so far as known to any Director or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had interests in the shares or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

### Long positions in shares of the Company

Name	Capacity	Number of shares	Percentage of issued share capital
Investec Bank (UK) Limited	Beneficial owner	183,400,000	28.14
Great Power Associates Limited ( <i>Note 1</i> )	Beneficial owner	90,479,242	13.88
Ms. Li Yuen Sze Mak ("Mrs. Li") ( <i>Note 1</i> )	Family interest	90,479,242	13.88
Frankie Dominion International Limited	Beneficial owner	75,260,986	11.55
Mr. Lam Po Kwai ("Mr. Lam") ( <i>Note 2</i> )	Interest of a controlled corporation	75,260,986	11.55
Ms. Lee Yuen Bing ("Mrs. Lam") ( <i>Note 2</i> )	Family interest	75,260,986	11.55
4Bio Signs Corporation	Beneficial owner	33,000,000	5.06
Mr. Loh James ("Mr. Loh") ( <i>Note 3</i> )	Interest of a controlled corporation	33,000,000	5.06
Ms. Loh Cheung Yuk Pok Natalie ("Mrs. Loh") ( <i>Note 3</i> )	Family interest	33,000,000	5.06

*Notes:*

1. Great Power Associates Limited is wholly owned by Mr. Li. Accordingly, each of Mr. Li and Mrs. Li, the spouse of Mr. Li, was deemed to be interested in 90,479,242 shares of the Company.
2. Frankie Dominion International Limited is beneficially owned as to 44.2% by Mr. Lam. Accordingly, each of Mr. Lam and Mrs. Lam, the spouse of Mr. Lam, was deemed to be interested in 75,260,986 shares of the Company.
3. 4Bio Signs Corporation is wholly owned by Mr. Loh. Accordingly, each of Mr. Loh and Mrs. Loh, the spouse of Mr. Loh, was deemed to be interested in 33,000,000 shares of the Company.

**Long positions in underlying shares of the Company**

<b>Name</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
Rapid Falcon Limited ( <i>Note 1</i> )	Beneficial owner	95,238,095	14.61
Chow Lork Sang ( <i>Note 2</i> )	Interest of a controlled corporation	95,238,095	14.61
Lai Kwok Ching ( <i>Note 2</i> )	Interest of a controlled corporation	95,238,095	14.61
JL Strategic Fund ( <i>Note 3</i> )	Beneficial owner	50,000,000	7.67
Swordfish Holdings Limited ( <i>Note 4</i> )	Beneficial owner	50,000,000	7.67
JL Capital Pte. Ltd ( <i>Note 5</i> )	Investment manager	100,000,000	15.34
Mr. Loh ( <i>Note 6</i> )	Interest of a controlled corporation	100,000,000	15.34
Mrs. Loh ( <i>Note 6</i> )	Family interest	100,000,000	15.34

*Notes:*

1. The Company issued a convertible bond of HK\$2 million to Rapid Falcon Limited in August 2005. Upon full conversion of the convertible bond, Rapid Falcon Limited will be entitled to 95,238,095 shares of the Company.
2. Rapid Falcon Limited is beneficially owned as to 61% by Mr. Chow Lork Sang and 39% by Mr. Lai Kwok Ching. Accordingly, each of Mr. Chow Lork Sang and Mr. Lai Kwok Ching was deemed to be interested in 95,238,095 underlying shares of the Company.
3. The Company issued a convertible bond of HK\$2.5 million to JL Strategic Fund in September 2004. Upon full conversion of the convertible bond, JL Strategic Fund will be entitled to 50,000,000 shares of the Company.
4. The Company issued a convertible bond of HK\$2.5 million to Swordfish Holdings Limited in September 2004. Upon full conversion of the convertible bond, Swordfish Holdings Limited will be entitled to 50,000,000 shares of the Company.
5. JL Capital Pte. Ltd is the investment manager of JL Strategic Fund and Swordfish Holdings Limited and was thus deemed to be interested in 100,000,000 underlying shares of the Company.
6. Mr. Loh holds 99% interest in JL Capital Pte. Ltd.. Therefore, each of Mr. Loh and Mrs. Loh, the spouse of Mr. Loh, was deemed to be interested in 100,000,000 underlying shares of the Company.

**Short positions in shares of the Company**

<b>Name</b>	<b>Capacity</b>	<b>Number of underlying shares</b>	<b>Percentage of issued share capital</b>
Great Power Associates Limited ( <i>Note 1</i> )	Corporation	23,000,000	3.53
Mrs. Li ( <i>Note 2</i> )	Family interest	23,000,000	3.53

*Notes:*

1. Great Power Associates Limited, a company wholly owned by Mr. Li, has written a call option to an independent third party, pursuant to which the option holder has the right to purchase from Great Power Associates Limited up to 23,000,000 shares of the Company at an exercise price of HK\$0.03 per share during the period of 2 years commencing from 2 December 2003.
2. Great Power Associates Limited is wholly owned by Mr. Li. Accordingly, each of Mr. Li and Mrs. Li, the spouse of Mr. Li, was deemed to be interested in the short position of 23,000,000 shares of the Company.

Save as disclosed above, as at 30 September 2005, the Directors were not aware of any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

## COMPETING INTERESTS

During the period under review, none of the Directors nor the substantial shareholders of the Company had any interest in business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

## DISCLOSURE PURSUANT TO GEM LISTING RULE 17.22

As at 30 September 2005, the trading receivables (the "Receivables") due to the Group from Standard Chartered Bank amounted to approximately US\$79,000 (equivalent to approximately HK\$612,000). The Receivables accounted for approximately 19.5% of the total assets of the Group of approximately HK\$3,133,000 as at 30 June 2005.

The Group is principally engaged in the development, production and distribution of financial software products. The Receivables were unsecured and interest free and primarily arose from the licensing and maintenance fees of software system charged by the Group in its ordinary course of business and on normal commercial terms. The Receivables had a payment term of one month.

To the best of the knowledge and belief of the Directors, Standard Chartered Bank and its respective ultimate beneficial owners are independent third parties, and not connected with the Group or its connected persons (as defined in the GEM Listing Rules).

As of the date of this report, the Receivables are fully settled.

## CORPORATE GOVERNANCE

During the nine months ended 30 September 2005, the Company had complied with the Code on Corporate Governance Practices as set out in Appendix 15 in the GEM Listing Rules.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2005, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. As at 30 September 2005, the committee comprises three independent non-executive Directors, namely Mr. Ng Ge Bun, Mr. Wan Yiu Kwan Stephen and Mr. Lee Kar Wai.

The Group's consolidated financial statements for the nine months and three months ended 30 September 2005 have been reviewed by the audit committee, which is of the opinion that such statements had complied with the applicable accounting standards and adequate disclosures had been made.

By order of the Board  
**ProSticks International Holdings Limited**  
**Li Ching Ping Vincent**  
*Chairman*

*The board as of the date of this report comprises Mr. Li Ching Ping Vincent and Mr. Fung Yan Shun as executive Directors, and Mr. Ng Ge Bun, Mr. Wan Yiu Kwan Stephen and Mr. Lee Kar Wai as independent non-executive Directors.*

Hong Kong, 4 November 2005